

**FLOOD CONTROL ADVISORY BOARD
MINUTES**

January 25, 2006

Scott Ward, Chairman called the meeting of the Flood Control Advisory Board (FCAB) to order at 2:00 p.m. on Wednesday, January 25, 2006.

Board Members Present: Scott Ward, Chairman; Kent Cooper, Ray Acuna, Ex Officio: DeWayne Justice, Vice Chair; Hemant Patel; Ex Officio.

Board Members Absent: Paul Cherrington, Ex Officio, Melvin Martin, Secretary

Staff Members Present: Julie Lemmon, General Counsel; Timothy S. Phillips P.E., Chief Engineer and General Manager; Russ Miracle P.E., Division Manager, Planning and Project Management; Dick Perreault, CIP/Policy Manager; Mike Alexander, Chief Financial Officer, Mike Wilson, Lands Division Manager, Charlie Klenner, O&M Division Manager; Ignacio Villalobes, Maintenance Specialist; Linda Reinbold, Administrative Coordinator, Anna Medina, Clerk of the Flood Control Advisory Board

Guests Present: Ed Fritz, MCDOT; Gary M. Scott, MCDOT; Jeri George, DEA; Gebre Abera, Haskin – Ryan.

1) RECOGNITION OF THE EMPLOYEE OF THE QUARTER

Klenner: Good afternoon. It's my pleasure to be able to introduce Ignacio Villalobes as our Employee of the Quarter. Ignacio is a maintenance specialist in our O&M shop. He does a lot repair work on steel and he does a lot of steel fabrication. Recently the dam safety group put in some instrumentation at McMicken Dam to monitor fissure activity and we needed a housing to protect the equipment. Ignacio fabricated an armor-proof housing with a locking mechanism that made it extremely difficult for vandals to get in and damage the equipment. He always has a good attitude and smile on his face. He doesn't like being in front of people right now, so he's not smiling now, but he's a great guy to work with and he's very talented and we appreciate having him. (Applause.)

2) APPROVAL OF THE MINUTES OF THE MEETING OF JANUARY 25, 2006.

ACTION: It was moved by Mr. Justice and seconded by Mr. Cooper to approve the minutes as submitted. The motion carried unanimously.

3) PROPOSED FY 06/07 CIP BUDGET AND FIVE-YEAR CIP

Staff will present the “Draft-Proposed Flood Control District FY 06/07 CIP Budget and Five-Year CIP”, seeking an endorsement from the Flood Control Advisory Board.

Phillips: Mr. Chairman, Members of the Board, I'd like to make a pre-comment on the Chief Engineer's comments. It's kind of an introduction or an opening to Items both 3 and 4. You may have all read in the papers about the Board of Supervisor's Chairman Stapley's opening address, kind of “State of the County” address where he put a self-imposed limit on special district tax rates, ours and the Library District's. It limited, similar to the primary property tax, special district's tax revenue to a limit of 2% increase per year. The other part of that agenda item that was approved unanimously by the Board, was to set a limit on our Operating Budget. As you know, we have two budgets, the Operating and the CIP, but put a limit on the Operating Budget at, I believe, 5% per year. The \$64 question that you're probably anxious to ask me is, well what's the effect that that is going to have on the District's finances and the answer is I don't know as of yet. When we get the February taxes in, there'll be a projection done and then we'll be able to determine a little bit more what that effect is. The perspective that I have and from Mike Alexander, our Chief Financial Officer, is that this year won't affect us at all. Next year we need to look at it real close, but as time goes on, it could affect us. Supervisor Wilcox in the meeting asked is this going to affect the District's five year CIP and the answer from the Office of Management and Budget is we don't think so, it shouldn't limit that. The self-imposed limitation is a one year thing, because they're only approving budgets on a one year basis. As Dick Perreault and Mike Alexander go through their presentations, keep in mind that there's, for the first time that I know of, there is some limitation on how much revenues we'll get from the secondary property tax. The main argument for that is, if not capped, every year we're going to receive a \$5-6 million increase in the revenues from the secondary property tax, simply due to the increase in assessed value. And the sense was that if this wasn't done by us, then the population at a whole might start asking for limitations on the runaway property taxes, property valuations and what that tax rate generates, so we base this budget that you're going to see today, where that is not a factor.

Phillips: I would like to introduce Dick Perreault to speak on our CIP for this coming year. And as a precursor to that, Mr. Chairman, I guess now is as good as a time as any to inform you that Dick has decided to retire.

Perreault: Mr. Chairman, it is my pleasure to introduce our proposed FY 2007 CIP and Five-Year plan. This is an action item, so we will be asking for a recommendation at the end of the presentation. The format that I'm following is very similar to the ones that I've followed in the past. You can see this slide that the budget for next year is approximately a 10% increase over this year. We're asking for \$71 million in CIP funding. The vast majority of it being in our construction-related activities of \$58+ million dollars. The personnel costs are approximately the same as has been in the past years. Our Lands expenditures within the next year and Design expenditures are a little less, and I'll have another slide

that'll show that in a second. And our CIP project reserve of 1% is just really enough for us to do some minor adjusting.

The next slide shows a distribution of the CIP over the last four years; 2002 through 2005 are actual numbers. The forecast for this year is the 2006 number, and then for next year is 2007. The first thing that is very obvious is that we're spending more and more of our funding on construction, and I think that's probably what the public wants from us. In the past few years, we've put anywhere between 25% to the third of our budget in rights-of-way acquisition and we're now getting those construction plans implemented, and so we're heavily into a construction phase. Our force account, which is our internal labor costs, have been , three to four percent, and as you can see, we're showing that this year and for next year we're going to have very minimal project reserves or carryover out of the CIP. This shows where the workload is and where the effort is during this coming year and also for next year.

Last month at the Advisory Board meeting, you asked, what the impact of all the cost increases that have been announced and how that's affecting our CIP. The two primary areas are cost increases in construction and in rights-of-way acquisition. We looked at the last six years of where does the money go within our CIP projects? There are three primary activities: Design, Rights-of-Way and Construction, and you can see, back in 2000 we were spending about 10% on design, roughly 18-20% on land and then about 70% on construction. It's no surprise to us that the land costs have been the ones that have changed the most. Design has been relatively flat as far as the cost per project, some where in the 10-12% range. Land costs have gone up significantly per project, which means that the construction costs per project has gone down. That doesn't mean that the projects are any cheaper, it just means that the distribution within a project has now changed and this is of no surprise. We knew the land costs were going up, but we weren't sure just how much it was on a per project basis. Again, these are selected projects not a real detailed analysis on all of our project, but some of the representative ones over the last six years.

For those of you who are in the development field and follow real estate, again, these numbers won't be surprising to you, but I think they were surprising to us on how much land has gone up. We asked our right-of-way division to look into the last three years of what land has been selling for in Maricopa County, breaking it down by vacant one acre parcels, residential, industrial and then larger parcels of 40 acre vacant. You can see that the one that's increased most significantly is the cost of residential properties. In the last three years, these have gone up about seven times in value. The other properties that affect us most on our projects are the large vacant parcels, those have gone up about six times in value, so who knows where it's going to end, but definitely there is a huge increase in right-of-way costs. We also asked our lands folks to look over the last couple of years of where have the land sales been most prominent in which we would be expecting to operate, so we picked out a few MLS grids for projects that we will be working on within the next

five years and these show the increases in the vacant land sales. This doesn't say it's a five acre parcel or a ten acre, it's just on average land sales, but it gives you an idea of where the hot areas are and where the prices have gone up. Down in the Williams-Gateway area, it's gone up 375%, Queen Creek, 218%, over in the west valley Avondale, almost 400%, going up near Luke, 130 % - 199%. The only area that's yet to really break out is Wickenburg, but that's already up 54% in the last two years, in average vacant land sales. So, it's not going to get any cheaper, and these are some of the concerns that we're facing now with how the project costs are going to be affected, or affect our ability to deliver projects. The land is going to become much, much more of a concern for us. Again, these are selected areas that we chose.

We also asked what's happening with construction costs. I asked our construction management folks, who track on a year-to-year basis the construction costs, what we have been experiencing. They also looked at the Engineering News-Record southwest average. What we did, was we took the Los Angeles numbers and the Denver numbers and averaged those out for the types of materials that we deal with and the type of horizontal construction that we deal with, and you can see that from 2003-2004, there was about a 26% increase. Another 11% in 2005, and the Engineering News-Record now is projecting that the growth or the increase in costs is going to slow down to about 8% for next year. And they're basing that on somewhat of a slowing economy nationally, somewhat of a slowing demand for materials. They think things in China are cooling off, but they also did preface it that this does not include any impacts as far as adverse weather. So, we know what the weather can do to us in the costs of materials. The primary materials that have gone up are cement, asphalt, plastic steel, rebar, and lumber. Last year 2005, diesel fuel went up 59%. And diesel fuel affects our business quite a bit in that most of the hauling, obviously is by vehicle, vehicles using diesel fuel, and also the construction equipment use diesel fuel, for excavating, hauling, etc., so the cost of diesel fuel is a concern.

Engineering News-Record reports also said that they anticipate that diesel fuel will continue to rise in cost in 2006 and they see plastic and copper costs also increasing. Looking at what our costs here are, locally on our project, again, we took selected projects from 2003. Our cost increases are somewhat higher than what the Engineering News-Record reflected costs. I think that's probably because we're building locally 60,000+ new homes every year, we're providing the infrastructure that's necessary for those new homes. We're competing directly with many of those same contractors and the materials that they use. Probably in the future, not next year but a few years out, we'll have to compete with renewed freeway construction, which is again going to be very much similar to the type of work that we do. So, we don't know what our cost increases will be next year, but we know it's not going to be the same as this year, and it's not going to definitely be any less. This is in response to your questions last month on what we see as our impacts, and we've put a few numbers to it, to show the significance of that impact. Are there any questions on the last two or three slides before I go on?

Where will our projects be in the next five years? Well, pretty much in the same places that we had shown you for this year. We're still doing quite a bit of work out in the far southeast valley, we have projects scattered throughout the central portion of the valley, and we have projects in the west valley. These are mostly continuing projects that are in our current five-year CIP and we will be working on next year, or the following year. These are the major projects that we will be continuing. . So, no real changes here.

Some of the things that we see as a challenge next year, for the next four years, and this doesn't change much from year to year, are obviously the rights-of-way costs, the escalating construction costs are also a concern. Our project partner funding is getting to be more and more of a challenge. We're anticipating that our federal partners aren't going to have funds for us in the next few years. We've got commitments currently from the NRCS for the White Tanks #3 Modifications, but beyond that, their funding is very tenuous, at best.

We have had little success with getting Corps of Engineer funding and those are our two primary federal partners. Some cities are in better shape than others. Other cities are waiting for the results of their bond program elections, and so we can't get too far out in our scheduling until we know the results of the upcoming bonds programs. Currently, 25-30% of our project funding comes from reimbursements with our partner cities, and so that's a very, very important part of any future program funding.

Tim mentioned about the CIP funding. We are in good shape for this coming year, but if the limitations are extended into the future, we're not sure what that impact will be on us. So we've got two things happening here. We've got costs going up on one side, but we may have revenues somewhat constrained on the other side. So, with that result, we either have to find more funding from our partners, or we're probably going to end up having to do fewer projects with the funding that we do have available.

And the last concern item has to do with staffing. We currently have five vacancies within the Planning & Project Management Division which we are having difficulties filling. We also have vacancies down in our Engineering Division, and these are the folks who do most of the reviews for our plans and those that our partners submit to us, so staffing is definitely becoming an issue and will be until we can get those positions filled.

The next few slides just show where the money to be spent in the next five years and on a project-by-project basis. These slides were included in your packets. Most of these projects are continuing projects. The ones that we have highlighted, there's seven of them, came out of our most recent Prioritization Procedure and we're showing those. The Pinnacle Peak project(89th Ave.-Agua Fria River) was submitted by Peoria. The second Pinnacle Peak project at 67th Avenue , and the

Beardsley Road Channel project were also submitted by Peoria. We've done quite a bit of advance work on the Pinnacle Peak Road channel, (89th Avenue to the Agua Fria River), and so we're hopeful to be going into design on that this coming year. The other projects are scheduled a little bit further out. The Northern Parkway Drainage Channel Project was submitted by Glendale and MCDOT and that funding is one year out. And the last two were submitted by the Town of Queen Creek. These will facilitate the extension of Riggs Road to the east and requires channelization of Sanoqui Wash. The first two Sanoqui Wash projects we currently have agreements for and are going to construction yet this calendar year. The other two are quite a bit further out and will be somewhat limited by the availability of funding.

The last new project is one that was submitted by the District staff and involves putting levees at the CAP to contain Skunk Creek and we're hopeful of getting cost sharing with ADOT and with the City of Phoenix, and possibility the CAP on that.

In summary, we've increased our five year CIP to show where we think the needs are, also taking into account the availability of funding and staffing. You can see it's about a \$71 to \$70 million per year budget, and we're forecasting a total five-year CIP in the neighborhood of \$350 million.

In conclusion, staff recommends that the Advisory Board endorse and recommend to the Board of Directors approve our proposed Five-year CIP for inclusion into this coming year's 2007 District budget

Patel: One question on that 1%; is that a contingency or is that that carry-over that we used to have?

Perreault: Mr. Chairman, Mr. Patel, rather than calling it contingency, we call it project reserve. Normally, I would like to see something in the four to five percent range, but because we have so much construction going on and much of the construction contracts have already been awarded, we are depending on how well the contractors can meet their forecasts and their schedules. We are saying that most of our budget is committed next year and I put roughly a million dollars into the project reserve that will hopefully cover some costoverruns or right-of-way increases in cost. It's an approved amount within the budget, but it's not dedicated or obligated to a particular project.

Patel: But our confidence in terms of not having five percent and lowering it down to one percent is because these are contracts that have already been awarded, so we have a contract amount that we're working with.

Perreault: Yes sir. And part of it, also, is because if I would have made it a \$75 million budget, it may be less likely to get approved than a \$71 million budget.

Patel: Now, with the diesel fuel rises, are our contractors putting exclusions in the contracts where, I mean, if the price escalates beyond a certain range, they're entitled to more money?

Perreault: At this point, they're not doing that, so they are at risk and I'm assuming that they're already factoring that in. We may say that we have a contract duration of 12 months, well they might look at it and say I'm going to do this in seven months and then what should I anticipate future costs to be? Of course, if they have weather problems or delays in construction, then they're at risk.

ACTION: It was moved by Mr. Patel and seconded by Mr. Cooper to approve the item as submitted. The motion carried unanimously.

4) FY 06 FINANCIAL OPERATIONS STATUS- SECOND QUARTER FINANCIAL CLOSE

Staff will present to the Board a detailed comparative of actual Flood Control District results through month end December and the revised budget for FY 2006.

Alexander: Mr. Chairman, Members of the Board, this is an information item only. No action will be required. What I would like to do is just bring you up to date on the financial operations of the District for the first six months of fiscal year 06.

We have collected in terms of the secondary tax about 53.4% of what we have in the budget; that is in contrast to about 38% that we had collected in the first six months in fiscal year 05. I do not anticipate that we will exceed \$62.7 million full-year budget but it certainly is comfortable to know that first six months have been good to us. Although it looks like we've only collected about half of the revenue for 'excess land' sales, the District recently consummated an excess land sale for about \$1.2 million. When we add that to the \$740,000 that was already collected, we're over budget.

Licenses and permitting revenue: the \$2.5 million is the result of a couple of large easements and also greater than anticipated permitting fees.

The only item that we have of any concern at all in terms of revenue is intergovernmental revenue. I looked at our outstanding receivables, to add to the \$746,000 already collected, about another \$750,000. Our intergovernmental revenue, as you know, is very closely tied to the achievement of milestones in our CIP projects. This year, those milestones are very much associated with construction, and as Dick said, our construction is all under contract. We think we have a pretty good handle on what's going to happen the last six months, we are confident that we will reach those milestones and we will collect about 95% of that \$22.7 million. So I think our revenue picture this fiscal year looks really good.

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This is a representation of where we stand in our operating budget. There's a couple of items that I think were of interest here. First one is total direct payroll expense. That is, as you know is a fixed expense. We have spent less than half of our total budget in the first six months. Again, eluding back to what Dick said, most of that is due to the economy as a whole is doing well, we are having some difficulties filling our vacancies, we are running a much higher vacancy factor than we anticipated a year ago January, and the result is that we have – we are running what would be considered a positive variance in that fixed expense.

As far as the operating expenses are concerned, again the major item of interest is in outside contract expense, and although it looks like we are not spending our funds – in order to achieve our budget, we are far ahead of where we were this time last year. Last year we had spent about 32% of the operating expenses in the first six months. This year we spent almost 38. Although it doesn't appear, we are doing much better than we did last year. You can predict that each quarter we will spend more with the crescendo coming in the fourth quarter. We think the same pattern will be followed this fiscal year.

Down in capital acquisitions, again, it looks like we are not going to spend our entire budget, but most of those capital expenditures are in the purchase of construction and field vehicles. There is a long lead time on those vehicles. We receive most of the vehicles in May and June, so we do think that we will spend about 94-95% of our entire operating budget by June 30th.

As far as the CIP is concerned, let me give you a figure from last year. Last year after six months we had spent roughly 16% of our entire year CIP. This year, as you can see, we have spent 33%, 34%, so we're far ahead of where we were last year. And as you recall, we spent most of our CIP budget last year in the last six months. Although this year, we're not as backloaded. This year we are heavily dependent on construction expenditures, \$31 million is anticipated in the last six months. Again, those are all but one under contract. Under contract we have the construction schedules pretty well set, so we're confident that we will spend somewhere between 93 and 95% of our entire CIP budget by June 30th.

As far as our ending fund balance is concerned, we started the fiscal year with \$32 million. This year I did the forecast a little bit different, in that I reduced the taxes to be collected, I reduced the reimbursements we can expect, and I increased revenue up for the easement revenue we receive. I did the same thing on expenditures in the operating budget; I said we would spend only 95% of the budget. I said we would spend only 93% of the CIP budget, and those numbers are pretty much in keeping with what we've done in prior fiscal years. And if we do that, we will end the fiscal year with about \$27 million in fund balance. As you might recall, the mid-term audits from a couple of years ago recommended that we end the fiscal year with \$20 million to carry us through the first three-

four months of the next fiscal year. So I think the \$27 million, considering the fact that we are now have a self-imposed cap on secondary tax revenue, probably puts us in very good shape to start out fiscal year 07.

Ward: Gentlemen, any questions? Mr. Patel.

Patel: What I'm curious about is, if memory serves me right, this was the first year with some of the reorganization that's occurred to the County Manager's Office where some services we were doing ourselves, has gone to other county agencies and we're probably doing some cost allocations. How are we tracking what we're paying and what we are getting in return, and how is that compared to what the services were costing before when we were doing it ourselves.

Alexander: Well, it's very easy to track what we're being charged.

Patel: I think you get a bill.

Alexander: As far as what we receive, I'm probably not the right person to answer that question. One of the operating managers who are directly involved.

Patel: Tim, I think it's only fair to this agency if we are looking at what we were spending in those areas and what we are getting out.

Phillips: Mr. Chairman, Members of the Board, let me ask Mike, we recently did a calculation as to what we thought we had spent for the services that we did ourselves, and that number is –

Alexander: I believe we did that calculation for 07, and we looked at what those services were costing us, paying for them at burden rates, versus what we pay for them at direct rates, and it was about, as I recall, about \$600,000 difference.

Patel: So we pay more.

Alexander: Yes sir.

Phillips: Mr. Chairman, Members of the Board, as far as the level of service, we have worked very hard with Public Works to insure that the same level of service that we got before is what we're still getting, but when you talk about burden rates, you're right, indeed that resource that we had here that was for us and only us, now does cost us a little bit more money. And as I mentioned last month, I believe, when we talked about the issue that the Public Works, we were again looking at some opportunities for collaboration or consolidation. We're in the midst of doing that in a number of the administrative functions to see where there are opportunities and what the constraints are, but I could tell you that there's four criteria that we've established right up front, as we look at this. One is separation of the records, which is mandated by law, separation of the Finances, customer service and then tangible and non-

tangible benefits, meaning, does it cost us or is it a wash, or are there other benefits that, are not quantifiable, and those are being used as a basis for evaluating, do we collaborate as we have been for the last couple years, or is there a consolidation organization that maybe will work better, and right now the jury's still out on that. We're going through a very objective process of looking at the alternatives against what we're currently doing, evaluating advantages, disadvantages, so that the powers that be that make the decision have the best information available in order to make that decision.

Patel: The record to date shows that we're about \$600,000 higher?

Alexander: That's for fiscal year 07, next year.

Patel: Next year.

Alexander: That is what we anticipate, yes sir.

Phillips: That is what we have currently consolidated some functions.

Ward: I have a question Michael.

Alexander: Yes sir.

Ward: How much money do we have in the bank right now? What kind of float do we operate on a daily basis?

Alexander: Right now we have about \$24 million on deposit with the treasurer.

Ward: And do we get any benefit out of that? Do we get any interest?

Alexander: Yes sir, we do.

Ward: And what today are we yielding?

Alexander: One and a half per cent.

Chairman: One and a half. The reason I ask that is there any way we can look at a money market fund? With that amount of money, we could be getting up in the close to 4%. Do we have the ability to do that?

Alexander: No sir. I believe that the interest rate that is paid on our deposit is set by the Board of Supervisors.

Ward: And they control that. Even though we are a separate entity, we can not go to the bank, Mike, and negotiate a money market rate?

Alexander: No sir.

Chairman: I was being somewhat facetious, but that is a lot of money to have and only get 1.5 % .

Alexander: I fully agree.

Ward: Any other thoughts?

Patel: On that same note, do we know how much the treasurer gets paid? I mean is that a matter of public record? In terms of what they are paying us, is that just an allocation, or is that really what they're getting?

Alexander: No sir, I'm sure what the treasurer earns on the funds is a matter of public record, but I have never inquired as to what that is, and my guess is it changes.

Patel: Because I suspect it's more than what they're paying, they are earning off of our money, the District's money.

Ward: The reason I bring that up is because I've applauded you guys, the way you run this business for years and Mr. Patel's questions, you know, what's going to happen with shortages and fuel costs and all these things we try to keep such a great handle on, now you've got some employment vacancies and I'm just sitting here thinking of is there any way we have that kind of money in the bank, we can get a better yield on it. Is that something we can talk to the Board of Supervisors about?

Phillips: Mr. Chairman, Members of the Board, what I would suggest is, I'll ask Mike to go inquire and see what we can find out of what the rules are, what the allocation is, if it's an allocation or whether, we have a pot of money and it's paid out some amount based on that pot of money and we get it all. But let us do a little bit of homework for you before you go talk to the Supervisors.

Ward: I wish you would.

Alexander: I will.

Ward: Because I think Ray you are seeing that in Phoenix, aren't you, as well? You are worried about some shortfalls next year and you're dealing against the private sector for employees and all the petroleum costs and concrete costs.

Acuna: Yes sir. Mr. Chairman, we're experiencing the same increase in costs. I am in no way shape or form a financial expert, but I've been intrigued by the questions that this Board is bringing up. Good questions. May be beyond Tim's ultimate ability to control, but I applaud you all, really good business questions.

Phillips: I will add, that on vacancies, we have done a lot of interviews here for those vacancies, and hopefully, they will be disappearing. But we do have a challenge because even as Prop 400 starts to become more and more real, it's going to be hard to get the type of talent that we've been used to and even though we here recently had a significant increase in our compensation for a lot of the professional and the technical trades,

we expect that we are going to have a challenge finding the people that we want and may have to start looking at, rather than finding the experienced person, but training, the next generation Flood Control guy, because that is all that will be available. And that is part of our discussion in-house on how do we manage these changing conditions in the future.

5) FY 07 FLOOD CONTROL DISTRICT OPERATING BUDGET

Staff will present the FY 06/07 requested Operating Budget to the Flood Control Advisory Board, seeking an endorsement from the Board.

Alexander: The Board will be requested to endorse and recommend approval to the Board of Directors, of our 06/07 Operating and CIP Budgets. My presentation will deal only with the operating portion.

Fiscal year 07 secondary property tax is up 2% from what we anticipate, or what we were budgeted at fiscal year 06. License and permit revenue is really just a recognition of how things have been going. As I said, in the last presentation, we've already collected \$2.4 million. In easement, licenses and permit revenue, the \$1 million we anticipate in 07 seems to be quite conservative. As far as the intergovernmental is concerned, although it's down from what we anticipate this fiscal year, it's all covered in ongoing projects. Again, it's tied to milestones. Those milestones are dependent upon construction and I think our construction schedules are pretty well set. You asked me about interest earnings and we do anticipate some reductions from this year to next, mainly because our ending fund balance – our beginning fund balance in 07 has gone down.

As far as excess land sales are concerned, I put in the column headed Fiscal Year 2006, Revenue Adjustments, to show you what is going on here. As we discussed in the first quarter report, the Cave Buttes land sales was removed from our revenue projections this fiscal year. We have moved it into the 07 fiscal year and our lands people tell us that should bring – net us about \$20 million. Total revenue in fiscal year 07 is about \$107 million.

I'm sure you will recall slides similar to this from our presentations in the past. The distribution of our revenue hasn't changed all that much. As you can see, we're still heavily dependent upon the secondary tax revenue for almost 60% of the total. Excess land sales will be a much great contributor in fiscal year 07, as soon as we consummate the Cave Buttes land sale.

The Operating Expenditures. Payroll expenses are up. Our total direct payroll expenses are up, the reason being is two-fold. One is that during this fiscal year, went through some salary adjustments to make our pay scale more competitive in the market. And the second item is that in years past, we have transferred out of our operating budget about \$2.3 million to cover the force account expenditures in the CIP. We have

always fallen short of achieving that actually. So this year we have reduced that amount by \$400,000, and that contributes \$400,000 to the \$673,000 increase you see.

Under net personnel transfers, you were asking me where the Public Works charges fall. They fall under that line item. But keep in mind that it is a net amount, so not only are there charges coming into FCD, but FCD does services for other county agencies, so that would be considered a revenue. Unfortunately we don't recognize it as a revenue, we recognize it as a contra-expense. So that line item is a net.

The Operating Expenditures- supplies are up about \$294,000. That is the direct result of increased fuel and our continuing commitment to fully fund the maintenance and the flood warning system.

Outside contract services is pretty much flat. The major items we have budgeted are about \$6 million for planning, \$1.5 million for delineation studies, \$3.3 million for the continuing dam safety program, and another \$150,000 which is double on this fiscal year, for the Flood Warning Studies.

Internal Service Charges- I wish I could fully explain why the intercounty services are going to go down by roughly \$400,000. The way they come up with those charge amounts is really their actual from two years ago, and they simply zero it out in the next fiscal year. Now why did they have such a good year two years ago, I honestly don't know. I know that when they sent us the amounts for the services charges it was \$400,000 less than this year.

The capital acquisitions and leases are pretty much flat. It shows our continued commitment to replacing primarily our vehicles, but also our construction equipment from the recommendations of equipment services.

Our distribution percentages don't change all that much. We are a heavily labor and outside service intensive organization.

I went back and I factored out some of the things that we have traditionally not experienced. Again, I say we wouldn't collect all the taxes, we would not collect all of the reimbursement, we would not spend all the operating, nor all the CIP next year. And if everything that I have forecasted should come to pass, we will end the year with about \$31 million fund balance up from \$27 million that we anticipate ending this year with. The reason for that increase is primarily the sale of the Cave Buttes property. If we are fortunate enough to have a \$70 million CIP in fiscal year 08, at that point I think we will see our fund balance begin to fall.

I'll be happy to answer any questions you might have, and again we do ask that you endorse and recommend our Fiscal-Year 2007 CIP and Operating Budget to the Board of Directors.

Ward: I have a couple questions.

Alexander: Yes sir.

Ward: I might not have understood this correctly, but you're recommending at the end of 2006, you're going to have \$30 million to carryover.

Alexander: FY 2006, \$27 million, I believe.

Ward: Oh, pardon me. This is FY 2007. Do you get all of the \$20 million from the sale of the excess land?

Alexander: Yes, we will get the \$20 million as revenue. We may have to recognize a gain or loss on that sale, whereas in years past before the GASB 34 pronouncement we didn't have to do that. So it may affect our expenditures, but yes, we get the entire \$20 million. And that gain or loss is a non-cash expense.

Ward: Are you seeing any of your client-cities reneging on their commitments.

Alexander: No sir.

Ward: Great.

Alexander: In my discussions with some of their financial people, they are experiencing budgeting difficulties, but up to this juncture, we have not experienced any defaults.

Ward: Has there been any communication from a client-city saying, going into the rest of this fiscal year, next fiscal year, they will not be able to make their obligation?

Alexander: No sir. At least that has not been communicated to me.

Ward: How good does that sale look on the Cave Buttes property? Well, let me interject, the reason why, if we're going to make a motion to the Board of Supervisors, we got to know if what we're projecting we're really going to yield.

Alexander: You're absolutely right.

Wilson: Mr. Chairman, Members of the Board, I had actually prepared some comments, in regard to the status of our excess land inventory. I might go over those really quickly on what we will receive from our Cave Buttes land sale.

When Tim asked me to give you the status of our existing land inventory, I thought it'd be important for you to understand where we are to see where we've been. . I went back to January 2001 and looked at one of our land inventory spreadsheets. At that time, we had 29 excess properties in our inventory. Those were properties of all sizes and

dimensions, less than an acre, as large as a hundred, so they're all over the board, but 29 separate excess properties in our portfolio. Today, we have nine properties in that excess portfolio. We've been very active, as you can imagine with the market being what it is, in selling a lot of these properties. Even though they may have looked less desirable in years past, we've had a lot of demand and had a very active excess land disposition program. In the last four years alone, we have received over \$26 million in revenue in excess land sales. Of those nine remaining properties this year, we have two of them currently under long-term lease, so they are revenue properties and essentially they're off the excess land block as long as the long-term leases are in place. We have two properties that are being prepped for sale to Guadalupe for public purposes, and then we have the Cave Buttes land sale, which I'll talk about a little bit at the end here. The other four remaining excess properties are all remnant pieces of one acre or less. So we don't have a huge amount of acreage to sell on the foreseeable horizon.

Even though it appears our cupboard is getting bare, we do have some properties projected as excess in the future, so it's not completely bare. One of those that I think came before this advisory board a year or so back is the Arlington School site, although that's a little bit out in the hinterlands compared to the current development. That's about a 20 acre site. We have several properties along the EMF, the East Maricopa Floodway channel. .

And then other potential for excess land is our floodplain buyout program. Although those are going to be kind of spot parcels that have been acquired as residential properties to get people out of harm's way, part of the program is to go in and abate them from environmental problems, do demolitions, and so we're not talking huge amounts of acreage and they're less than desirable properties because they're in floodplains.

So, it's hard to establish what our Cave Buttes land sale that we've been working on will yield. . In the last couple of months, we found out that the City of Phoenix had aligned a parkway right across the middle of our property. That was conceptual, it wasn't set in stone, and I'm happy to say that we had a meeting yesterday afternoon with the City of Phoenix, the pre-transportation people, their planners, their parks departments, we were able to work out an alignment that's acceptable to both of us, and so our plan is to go forward. We're meeting with our appraiser next week to get that appraisal onboard, and we anticipate it going to auction late summer, early fall. We want to give ourselves adequate time to marketing the property. And to answer your questions on the \$20 million, we think that's very much attainable, as long as our market maintains any kind of oomph. We feel our job is to get as much interest at that sale as possible, through marketing and sales. There has been a lot of potential for that property. There's been a lot of interest in the last two, three years. We, frankly, have been holding a lot of people back, telling speculators, investors, developers, you name it, and so we feel pretty confident that \$20 million is achievable.

Acuna And how many acres is that site?

Wilson: It's 208 acres of property, although that's a little bit deceiving. We estimate that it's somewhere between 108 to 115 acres of developable. It's got a lot of slope, restricted property uses on it, it has a 500 KV utility corridor that runs across a portion of it. It has a lot of braided washes that'll have to be delineated for 404. 100+ acres of developable property is not too far from the Desert Ridge area.

Ward: Thanks you.

Phillips: Mr. Chairman, Members of the Board, this is an action item. I just wanted to make one comment before you take your vote. Please keep in mind that this budget meets the target guidelines that OMB has given us, that the final budget may look a little bit different after we go through the little tweaks, or they go through the little tweaks of the budget, so recognize that this is what we're proposing and have submitted to the County, and that we would like your endorsement. And recognize that the final budget may look a little bit different.

ACTION: It was moved by Mr. Cooper and seconded by Mr. Justice to approve the item as submitted. The motion carried unanimously.

6) COMMENTS FROM THE CHIEF ENGINEER AND GENERAL MANAGER

Phillips: Mr. Chairman, Members of the Board. it seems to me the bottom line is that we've used up a lot of the excess lands that have currently declared. There's still some opportunity out there, but we're not as land rich as we were five years ago. And that's accounted for in our budget. We've used that money, to build the CIP to what it is. The second comment I wanted to make was about the self-imposed tax rate and I commented on that, and then lastly about Dick's retirement.

For someone who has been here for 25 years, he has a lot of institutional knowledge, has served, certainly the District and the residents of the County, I told him that I hate him from doing it, but it is the right thing to do. There comes a time to put this behind you and get onto the next stage of life, and so I wish Dick all the best of luck in the future. We will certainly miss him, but he will not be forgotten.

7) SUMMARY OF RECENT ACTIONS BY THE BOARD OF DIRECTORS

Ward: Gentlemen, you've had a chance to look at the actions of the Board of Directors. Any thoughts, any problems, we make those part of the record.

8) OTHER BUSINESS AND COMMENTS FROM THE PUBLIC

- Phillips: Julie was going to ask if you wanted an update on our legislative activity. We have a bill that's currently being worked, if you'd like an update, she can do that for you.
- Ward: That would be great.
- Julie: I'll make it really short. Pima County came to the District and said that their Flood Control District wanted to put together a bill to set up an administrative enforcement process. Currently under our statutes, if we want to enforce the floodplain use permits, we have to go to the County Attorney and basically stand in line with a lot more serious, should I say, matters that may be pending, and so we thought this was a really good idea. The bill that is down there, it's House Bill 2497, sponsored by John Nelson and I think a number of others did sign onto it, and that's basically what it does. It sets up an administrative enforcement process, not only address floodplain use permits, but will also allow us to use an administrative process to deal with trespassing on our structures, like when they tunnel into the dams or something, it'll allow us to very quickly respond and have a hearing officer deal with those complaints, rather than having to go through a full-fledged attorney-driven process in the Superior Court. I can give you a lot more detail. Basically that's what the bill does. If you have any questions, I'd be happy to talk to you about it. There's also a house concurrent resolution on state land that Mr. Nelson and Jake Flake are putting together and it should help us in the future, should it ever pass and become law, help us deal with our state land easement problem out in Pinal County. That's it.
- Chairman: Thank you very much.

The meeting was adjourned at 4:00 pm